

From: "Ellie Pepper" <epepper@better-neighborhoods.org> on 04/08/2008 05:00:03 PM

Subject: Regulation Z

Better Neighborhoods, Inc.

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BY EMAIL: regs.comments@federalreserve.gov

Jennifer L. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1305

Dear Ms. Johnson:

We, the undersigned members of New Yorkers for Responsible Lending, thank you for the opportunity to comment on the Federal Reserve Board of Governor's proposed amendments to Regulation Z, which implements the Truth in Lending Act (TILA) and the Home Ownership and Equity Protection Act (HOEPA) regulations.

New Yorkers for Responsible Lending (NYRL) is a state-wide coalition that promotes access to fair and affordable financial services and the preservation of assets for all New Yorkers and their communities. NYRL is committed to fighting predatory practices in the financial services industry through policy reform, education and outreach, research and direct services. NYRL's 139 members represent community financial institutions, community-based organizations, affordable housing and first time homebuyer groups, advocates for seniors, legal services organizations, and community reinvestment, fair lending, and consumer advocacy groups.

NYRL appreciates the Board's efforts to strengthen the HOEPA regulations. If we have learned anything from the foreclosure crisis, it is that strong regulations and regulatory oversight are critical. We believe that the Board is on a good track to ameliorating the regulations, particularly in terms of applying HOEPA to wider segment of subprime loans. Several key changes are needed, however, to ensure the final regulations are meaningful.

1. Covered Loans
 - **The regulations should cover non-traditional mortgages.** Non-traditional mortgages, including payment option ARMs and interest-only mortgages, contain some of the worst

abuses in the market.

2. Ability to Repay Standard

○ **The Board should remove the “pattern and practice” element from the prohibition against making higher-priced mortgage loans without regard to borrowers’ ability to repay.** The systematic origination of unaffordable loans has been at the core of the subprime lending and foreclosure crises. We laud the Board for proposing an expanded ability to repay standard – the principle of borrowers’ ability to repay is absolutely critical. But the provision is only as meaningful as its enforceability. Inclusion of “pattern and practice” language would severely undermine the provision. By including a “pattern and practice” standard, the Board would effectively imply that single violations of the ability to repay provision are not prohibited, thereby also weakening the provision’s deterrent effect. Under this standard, it has been extremely difficult for individual borrowers, without access to lenders’ portfolios to defend themselves.

3. Prepayment Penalties

○ **The Board should ban prepayment penalties for higher-priced and non-traditional mortgages.** There is simply no public policy rationale for permitting prepayment penalties in the subprime market. Prepayment penalties have caused major, extensive harm in the subprime market, effectively trapping borrowers into bad, unsuitable loans.

As New Yorkers, we feel especially strongly that if the Board does not ban prepayment penalties, it should prohibit them after the first year. Our state’s ban on prepayment penalties after the first year has proven a vital consumer protection, with no adverse impact on the industry.

4. Yield spread premiums

○ **The Board should ban yield spread premiums for all higher-cost and non-traditional mortgages.** Yield spread premiums, like prepayment penalties, operate very differently in the subprime and prime markets. In the subprime market, YSP abuses have been used pervasively as a tool for providing kick-backs to mortgage brokers who gouge borrowers.

5. Remedies

○ **The regulations must provide for strong and effective remedies.** In particular, the Board should include in the final regulation clarification that assignee liability applies to substantive violations of the rule.

Thank you again for the opportunity to comment on the Board’s proposal HOEPA reforms.

Respectfully,

Edward August
Executive Director

Eleanor Pepper
Assistant Director